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FISCAL IMPACT STATEMENT

LS 6524 **NOTE PREPARED:** Dec 30, 2010
BILL NUMBER: SB 435 **BILL AMENDED:**

SUBJECT: Capital Access Program and Agency Evaluations.

FIRST AUTHOR: Sen. Hume **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: This bill provides that the Legislative Evaluation and Oversight Policy Subcommittee shall evaluate various state agencies and programs on a schedule beginning in 2011 and ending in 2025. It provides that in 2011 the Committee shall evaluate agencies and programs with commerce matters as their major function, including the Indiana Economic Development Corporation (IEDC). It provides that any savings resulting from a committee recommendation regarding a commerce agency or program must be used for the Capital Access Program. The bill also moves the administration of the Capital Access Program from the Indiana Economic Development Corporation to the Indiana Finance Authority.

Effective Date: July 1, 2011.

Explanation of State Expenditures: *Indiana Finance Authority (IFA)*:Transferring the administration of the Capital Access Program (CAP) to IFA represents an additional workload on the agency, and existing staffing and resource levels, if currently being used to capacity, may be insufficient for full implementation. The additional funds and resources required could be supplied through existing staff and resources currently being used in another program or with new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend on legislative and administrative actions.

Indiana Economic Development Corporation: The bill's provisions would likely have minimal impact on the IEDC. Transfer of all records and property of CAP from IEDC to the IFA may result in some additional one-time costs, including additional staff workload, but these costs are expected to be minimal. Transferring CAP to the IFA could result in a minimal decrease in IEDC staff workload, but it is likely that staff would be reassigned to other duties or staff could be transferred with CAP to IFA.

Evaluation: Costs for evaluation would largely remain unchanged by the provisions of the bill, but could increase if multiple topics are selected.. [The Legislative Evaluation and Oversight Policy Subcommittee (LEOPS) selects an evaluation topic within that functional area, or LEOPS may specify an evaluation topic outside of the suggested list. LSA staff prepare the evaluations for consideration by a committee appointed by the Legislative Council to receive the report. Usually, one agency or program is reviewed each year, but LSA has produced as many as four reports in one year when several smaller topics were assigned. LSA has one full-time staff working on evaluation, but other staff members assist as needed.]

Savings Transfer: If a committee receiving an evaluation concerning economic development or the IEDC makes administrative or legislative recommendations that are estimated to result in cost saving to a state fund, any resulting savings will be transferred by the State Budget Agency to CAP.

<u>Background Information</u> - *Capital Access Program*: CAP was created in 1992 under IC 5-28-29 to provide capital to small businesses. The program provides reserve funds to lenders to utilize as additional collateral to secure business loans. The IEDC indicates that the majority of the participating financial institutions are community banks. A participating financial institution must establish a reserve account in which premiums paid by borrowers, lenders, and the state on loans the institution enrolls in CAP are deposited. The money in the reserve account is to be used to back the CAP loans enrolled by the financial institution. If a loan is uncollectible and charged off by the financial institution, the money in the reserve account is used to pay the uncollectible loan.

Current statute requires that on CAP loans the borrower must pay a premium of 1.5% to 3.5% of the loan value, and this premium must be matched equally by the financial institution. However, current statute also allows for the financial institution's premium to be paid by the borrower. The IEDC indicates that the loan premiums (borrower and lender share) are typically paid by the borrower, so the premium range for the borrower is essentially 3% to 7% of the loan value. Under current statute, the state matches borrower and lender premiums at a rate of 100% to 300%, depending upon enrolled loan values and borrower type. The state matching funds come from the Capital Access Account.

Since the inception of CAP, 3,679 loans have been enrolled totaling about $185.6 M, for an average loan of about $50,000. The premiums paid on these loans have totaled about $7.4 M, with the state match totaling about $8.3 M. A total of 386 loans have been charged off, or about 22 on average per year. The claims against reserve accounts total about $13 M, or about $33,800 per loan. As of October 31, 2010, there are no funds available in the state Capital Access Account.

<u>Explanation of State Revenues:</u>

<u>Explanation of Local Expenditures:</u>

<u>Explanation of Local Revenues:</u>

<u>State Agencies Affected:</u> IFA; IEDC; LSA.

<u>Local Agencies Affected:</u>

<u>Information Sources:</u> Matt Tuohy, IEDC, 317-233-9138; Eric Shields, IEDC, 317-234-3997; Auditor's Data.

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